Research Note

Investors should consider this report as only a single factor in making their investment decision.

Air Industries Group

Speculative Buy

Howard Halpern
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AIRI $5.10 — (NYSE MKT)

	2022A	2023A	***2024E***	***2025E***
Sales (millions)	$53.2	$51.5	***$53.0***	***$56.3***
Earnings (loss) per share	$0.33	($0.65)	***($0.29)***	***($0.16)***

52-Week range	$6.50 – $2.60	Fiscal year ends:	December
Common shares out as/of 4/12/24	3.3 million	Revenue per share (TTM)	$15.73
Approximate float	2.5 million	Price/Sales (TTM)	0.3X
Market capitalization	$16.8 million	Price/Sales (2025)E	0.3X
Tangible book value/share	$4.60	Price/Earnings (TTM)	NMF
Price/tangible book value	1.1X	Price/Earnings (2025)E	NMF

All per share amount reflect the 1 for 10 reverse stock split effective October 17, 2022

Air Industries Group, headquartered in Bay Shore, New York, operates primarily in the aerospace and defense industry. The company designs and manufactures structural parts and assemblies, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, components for jet engines, and other aerospace components. (www.airindustriesgroup.com)

Key investment considerations:

Maintaining our Speculative Buy rating and increasing our twelve-month price target to $7.50 from $5.00 per share due to increased sector valuation and our initial 2025 EBITDA forecast.

Air Industries is posed to experience customer and program growth as it deepen longstanding customer relationships and gain new domestic and international customer. Entering 2024, the funded backlog increased 14.7% to $98.3 million compared to $85.7 million entering 2023. The company ended 2023 with a book-to-bill ratio of 1.2 to 1, an improvement from 0.75 to 1 in 2022. A ratio above 1 indicates the likely of future growth.

The company has positioned itself to significantly leverage an increase in customer orders since it has made significant investments over the past few years in new equipment, refined delivery processes, and elevated customer service. The shortages of critical raw materials for a certain product have eased significant in 1Q24.

AIRI reported (on 4-1-24) a 4Q23 loss per share of ($0.65) on sales of $51.5 million. In 2022, sales were $53.2 million and a loss per share of ($0.33) per share. We projected a loss per share of ($1.05) on sales of $50.4 million.

For 2024, we project a loss per share of ($0.29) on sales growth of 2.9% to $53 million driven by increased production capabilities to meet customer demand as raw material shortages ease. We previously forecast a loss per share of ($0.57) and sales of $54.8 million. The reduction in our loss per share forecast reflects gross margin of 15.8% (prior was 15%) and an improvement from 14.4% in 2023.

For 2025, we project a loss per share of ($0.16) on 6.1% sales growth to $56.3 million driven increased purchase orders from the company's established backlog of firm orders and gross margins improving to 16.7%. We forecast operating income improving to $1.2 million from an estimated $885,000 in 2024. The net income loss is due to estimated interest expense of approximately $1.8 million in each period.

****Please view our disclosures on pages 11 - 13.***

Recommendation and Valuation

Maintaining our Speculative Buy rating and increasing our twelve-month price target to $7.50 from $5.00 per share due to increased sector valuation and our initial 2025 EBITDA forecast.

Our rating reflects Air Industries positioning itself to significantly leverage an increase in customer orders since it has made significant investments over the past few years in new equipment, refined delivery processes, and elevated customer service. We anticipate the company should begin to experience customer and program growth as it continues to deepen longstanding customer relationships and gain new domestic and international customer. Entering 2024, the funded backlog increased 14.7% to $98.3 million compared to $85.7 million entering 2023. The company ended 2023 with a book-to-bill ratio of 1.2 to 1, an improvement from 0.75 to 1 in 2022. A ratio above 1 indicates the likely of future growth.

Our 12-month price target of $7.50 per share implies shares have the potential to appreciate in excess of 45% over the next twelve months. Shares of AIRI trade at a twelve-month trailing price-to-EBITDA multiple of 8X (prior was 9.4X) while the aerospace and defense industry peers with similar to higher market capitalizations trades at a twelve-month trailing multiple of 8.4X EBITDA (prior was 7.6X EBITDA). We anticipate investor are likely to apply a multiple approaching that of the industry. We applied a multiple of 7.8X to our initial 2025 EBITDA per share projection of $1.18, discounted for execution and financial risks, to obtain a year ahead value of approximately $7.50 per share.

AIRI valuation improvement is contingent upon sales growth and swinging to operating income from operating losses, as well as increasing cash earnings and EBITDA. For 2025, we forecast sales growth of 6.1% and operating income of $1.2 million compared to sales growth of 2.9% and operating income of $885,000 in 2024. In 2023 the operating loss was $295,000 in 2023. In 2025, we anticipate cash earnings of nearly $2.9 million compared an estimated $2.4 in 2024. In 2023, cash earnings was $1.4 million. In 2025, EBITDA should reach $3.9 million from an estimated $3.7 million in 2024. In 2023, EBITDA was $1.1 million

We believe Air Industries Group is most suitable for high risk tolerant investors seeking exposure to a microcap company in the aerospace industry.

Recent Developments

In October 2023, the company announced the promotion of Scott Glassman to Chief Financial Officer, Principal Accounting Officer and Secretary of the company and its subsidiaries. Mr. Glassman previously served as AIRI's Chief Accounting Officer since 2019. He succeeds Michael Recca, who will remain with the company and be tasked with focusing on special projects related to AIRI's growth plans in the aerospace sector.

In September 2023, AIRI announced that in conjunction with a major OEM customer, it secured the welding equipment, related tooling and peripheral equipment used to weld the arresting gear that secures the E-2D aircraft's tail hook, which is essential for landing on aircraft carriers. This machinery is the only equipment currently certified to weld the arresting gear. This will help facility a $2 million order for E-2D arresting gear components from a long-time customer and a $3.2 million order for F-35 arresting gear components for the CV and CTOL versions of the aircraft. The latter order is from a new, non-U.S. customer.

Business Overview

Air Industries Group, headquartered in Bay Shore, New York, designs and manufactures structural parts and assemblies that focus on flight safety, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, components for jet engines and other components.

The company conducts its operations through the following wholly-owned subsidiaries: Air Industries Machining (AIM); Nassau Tool Works (NTW); and The Sterling Engineering Corporation (Sterling). AIM and NTW comprise the company's Complex Machining segment and Sterling represents the Turbine Engine Components segment.

AIRI's products are deployed on a wide range of military and commercial aircraft including Sikorsky's UH-60 Black Hawk, Lockheed Martin's F-35 Joint Strike Fighter, Northrop Grumman's E2 Hawkeye, Boeing's 777, Airbus' 380 commercial airliners, the US Navy F-18 and USAF F-16 fighter aircraft. The Turbine Engine sector makes components for jet engines that are used on the USAF F-15, the Airbus A-330 and A-380, and the Boeing 777, in addition to a number of ground turbine applications.

Many of the company's products influence critical aspects of aircraft performance. Air Industries is required to have advanced certifications for these products as a condition to being a supplier. Many of these products are subject to wear and tear or fatigue and are routinely replaced on aircraft at a time of service or flight cycle basis. Replacement demand should continue so long as an aircraft remains in service.

Projections

AIRI faced significant supply chain disruptions affecting the availability of raw materials in 2023 that have abated entering 2024. In April 2024, the company announced supply chain disruptions have significantly eased with the expectation to see continued improvement in 2024 and beyond.

Entering 2024, the funded backlog increased 14.7% to $98.3 million compared to $85.7 million entering 2023. The company ended 2023 with a book-to-bill ratio of 1.2 to 1, an improvement from 0.75 to 1 in 2022. A ratio above 1 indicates the likely of future growth.

AIRI has made significant capital investments in the past two years in an effort to improve its manufacturing efficiency and shorten production times. Supporting our forecasts should be the addition of a new $1.2 million high-tech machine tool installed at its Sterling subsidiary, which should expand internal capabilities, improve operating efficiencies, as well as product throughput.

2024 Forecast

We project a 2.9% increase in sales to $53 million and a net loss of $945,000 or ($0.29) per share. We previously forecast a net loss of $1.9 million or ($0.57) per share on sales of $54.8 million. Net sales growth should be supported by increased production and delivery of military aircraft programs from new and existing customer stemming from the ability to procure the raw materials needs to complete the manufacturing process. We project gross margins improving to 15.8% (prior was 15%) from 14.4% in 2023. Gross margin improvement should reflect increased manufacturing efficiencies from investments in machinery and production processes in the past few years.

We forecast operating (SG&A) expenses decreasing to $7.5 million from $7.7 million in 2023 reflecting lower stock based compensation costs. We anticipate a swing to operating income of $885,000 from an operating loss of $295,000 in 2023. Our operating income forecast reflects sales growth, gross margin expansion, and operating expense margin improving to 14.1% from 15% in 2023. Interest and financing costs could decrease to $1.8 million from $1.9 million in 2023 reflecting lower average debt levels, partly offset by higher interest rates. We project the company paying no taxes.

We project $4.7 million cash from operations on $2.4 million of cash earnings and a decrease in working capital of nearly $2.3 million. Cash from operations should be nearly offset by capital expenditures and repayments of debt. We anticipate cash increasing by $94,000 to $440,000 by the end of 2024.

2025 Forecast

We project a 6.1% increase in sales to $56.3 million and a net loss of $530,000 or ($0.16) per share. Net sales growth should be supported by increased purchase orders from long-standing and new customer, as well as a growing funded backlog and virtually no constraints with regard to the procurement of raw materials needed to complete the manufacturing process. We project gross margins improving to 16.7% from an estimated 15.8% in

2024. Gross margin improvement should reflect increased manufacturing efficiencies from prior investments in machinery and the production processes, as well as increase throughput from customer purchase orders.

We forecast operating (SG&A) expenses increasing to $8.2 million from an estimated $7.5 million in 2024 to support sales growth. We anticipate operating income increasing to $1.2 million from $885,000 estimated for 2024. The increase in our operating income forecast reflects sales growth and gross margin expansion, partly offset by operating expense margin increasing to 14.5% from an estimated 14.1% in 2024. Interest and financing costs should remain flat at $1.8 million as lower average debt levels are likely to be offset by higher interest rates. We project the company paying no taxes.

We project $4.6 million cash from operations on nearly $2.9 million of cash earnings and a decrease in working capital of nearly $1.7 million. Cash from operations should be nearly offset by capital expenditures and repayments of debt. Cash could increase by $5,000 to $446,000 by the end of 2025.

2023 and 4Q23 Results

2023 Results
Total net sales decreased 3.2% to $51.5 million from $53.2 million in 2022. AIRI reported a net loss of $2.1 million or ($0.65) per share versus a net loss of $1.1 million or ($0.33) per share in 2022. We projected a net loss of $3.5 million or ($1.05) per share on sales of $50.4 million.

The decrease in revenue was due primarily to delays in production associated with supply chain issues caused by one supplier failing to deliver raw materials for a key program, as well as overall changes in customer mix and production requirements for other key platforms and programs.

Gross profit decreased $24,000 to $7.4 million as gross margin improvement to 14.4% from 14% in 2022 nearly offset lower sales. Gross margin improvement reflects changes in sales across AIRI's major platforms, shifts in product mix, and overall improved operating efficiencies.

Operating (SG&A) expenses increased $77,000 to $7.7 million from $7.6 million in 2022. The increase reflects higher professional fees and costs associated with upgrading the information technology system and hardening cyber-security protection.

Interest and financing expense increased to $1.9 million from $1.3 million in 2022 stemming from a higher average debt balance related to new equipment and higher interest rates (nearly 7.6% versus 4.5% in 2022).

4Q23 Results
Total net sales decreased 3% to $13.5 million from $13.9 million in the year-ago period. The net income was $181,000 or $0.06 per share versus a net loss of $899,000 or ($0.29) per share in the year-ago period.

Gross profit increased to $2.2 million from $710,000 on gross margins of 16% from 5.1% in 4Q22. Gross margin in the year-ago period reflects the write down of obsolete inventory.

Operating (SG&A) expenses increased $33,000 to nearly $1.6 million. Operating income was $587,000 compared to an operating loss of income of $820,000 in 4Q22. The swing to operating income reflects gross margin improvement, partly offset by lower sales and a slight increase in SG&A expenses.

Interest and financing expense increased to $448,000 from $403,000 in the year ago period.

Liquidity – As of December 31, 2023, AIRI had $346,000 in cash. Total debt was approximately $22.2 million (of which $16 million is classified as current) for a debt/equity ratio (total liabilities/total equity) of 2.3X.

In 2023, cash from operations was $4.9 million consisting of $1.4 million in cash earnings and a $3.4 million decrease in working capital stemming from a reduction in receivables and increase in deferred revenue – customer deposits. Cash used in investing was $2.1 million consisting primarily of capital expenditures. Cash used in financing of $2.7 million consisted primarily of the partial repayment of debt obligations to Webster Bank. Cash increased by $65,000 to $346,000 at December 31, 2023.

On December 31, 2019, AIRI entered into a loan facility with Webster Bank that expires on December 30, 2025. The loan facility currently provides for a $20 million revolving loan, a $5 million term loan, and a $2 million equipment line of credit.

As of Decneber 31, 2023, total debt outstanding to Webster Bank was $15.8 million consisting of a $10.8 million revolving credit loan and a term loan in the amount of $5 million. All advances under the Webster Bank facility bear interest at a rate that is more than 3.5% annually, or the Prime Rate less 65 basis points. In 2023, the average interest rate was nearly 7.6%. As of December 31, 2023, AIRI has a fixed charge coverage ratio of 1.31X as compared to the required ratio of 0.95X and was in full compliance with all other covenants. However, as of March 31, 2024, the company was not in compliance with the required ratio of 1.10X. As of March 31, 2024, discussions to receive a waiver were underway. The company announce it will begin the process of negotiating with its bank and others to extend and or refinance this facility to provide additional stability and strength to the balance sheet.

In November 2023, AIRI entered into its sixth amended credit facility with Webster Bank to waive such defaults including failure to maintain a fixed charge coverage ratio of 0.95 to 1.00 for 3Q23 and a reduced fixed charge coverage ratio compliance requirements for 4Q23 and each quarter in 1H24.

As of Decembber 31, 2023, a loan payable related to financed assets totaled $22,000, and related party notes payable (to Michael Taglich, President of Taglich Brothers, Inc. and Director of AIRI, and Robert Taglich, Managing Director of Taglich Brothers, Inc. and a Director of AIRI) totaled $6.2 million.

The related party notes payable remain subordinate to the Webster facility and are due on July 1, 2026. Approximately $2.7 million of the related party notes can be converted at the option of the holder into common stock of the company at $1.50 per share, while the remaining $2.1 million can be converted at the option of the holder into common stock of the company at $0.93 per share. There are no principal payments due on these notes.

Risks

In our view, these are the principal risks underlying the stock.

<u>*Going concern*</u> – As the company has a convenient violation as of March 31, 2024 with its lender Webster Bank approximately $16 million of the Webster Bank debt has been classified as current. While the company regained compliance after the sixth amendment as of December 31, 2023, navigating the business landscape poses significant challenges and ensuring covenant compliance is likely to be extremely difficult. The business landscape includes dealing with supply chain issues and the wars in the Middle East and Ukraine that have heightened geopolitical instability that could diminish growth opportunities.

It is important to note that the company has failed to meet its covenants, as amended, during three out of the last four quarters. Air Industries is required to maintain a collection account with Webster Bank into which substantially all its cash receipts are remitted. If Webster Bank were to cease lending and keep the funds remitted to the collection account, AIRI would lack the funds to continue its operations as a going concern.

<u>*Supply chain*</u> – Political instability due to war in Eastern Europe and Middle East, as well as prior economic disruptions have adversely affected how AIRI's customers and suppliers operate their businesses and disrupted supply chains in various industries. The duration and extent to which this will impact the company's future results of operations and overall financial performance remains uncertain. Supply chain issues could persist into early 2024. If supply chain issues are not resolved it would most likely constrain the company's ability to produce and ship products to customers on a regular basis, thus negatively impacting future results.

International conflicts - The invasion of Ukraine by the Russian Federation had an immediate impact on the global economy resulting in higher prices for oil and other commodities. The US, United Kingdom, European Union and other countries responded to Russia's invasion of Ukraine by imposing various economic sanctions and bans. Russia has responded with its own retaliatory measures which has impacted the availability and price of certain raw materials. The invasion and retaliatory measures also disrupted economic markets. There can be no assurance that Russia's invasion of Ukraine and conflicts in the Middle East and future responses or escalations will not further disrupt the global economy and supply chain.

Reliance on government spending - AIRI's sales are primarily derived from products for US military aviation. Reductions in US Government spending on defense or future changes in the mix of defense products required by US Government agencies could limit demand for the company's products, and could adversely impact AIRI's financial results.

Reliance on a small number of customers – Air Industries derives most of its revenues from a small number of customers. In 2023, four customers accounted for 67.8% of net sales compared to three customers accounting for 76.3% in the year-ago period. The loss of one or more of the company's largest customers will likely have a materially adverse impact on AIRI's financial results.

Reliance on a few aircraft platforms – AIRI derives most of its revenues from components for a few aircraft platforms, specifically the Sikorsky BlackHawk helicopter, the Northrop Grumman E-2 Hawkeye naval aircraft, the F-18 Hornet and the Pratt & Whitney Geared TurboFan Jet engine. A reduction in the production of new aircraft or a reduction in the use of existing aircraft in the fleet (reducing after-market demand) would have a material adverse effect on AIRI's financial results.

Competition - The defense and aerospace component manufacturing market is highly competitive. Many of the company's competitors are well-established subcontractors engaged in the supply of aircraft parts and components to prime military contractors and commercial aviation manufacturers. Air Industries' prime competitors include Monitor Aerospace, a division of Stellex Aerospace, Hydromil, a division of Triumph Aerospace Group, Heroux Aerospace, and Ellanef Manufacturing, a division of Magellan Corporation.

Competitive bidding – The company obtains many contracts through a competitive bidding process. There can be no assurance that the prices bid will be sufficient to allow Air Industries to generate a profit.

Regulations – Air Industries may be subject to US government inquiries and investigations because of its participation in government procurement. Any inquiry or investigation can result in fines or limitations on the company's ability to continue to bid for government contracts and fulfill existing contracts.

Legal proceedings – In October 2018, Contract Pharmacal commenced an action relating to a sublease entered into between AIRI and Contract Pharmacal in May 2018. In the action, Contract Pharmacal sought damages in excess of $1 million for AIRI's failure to make the entire premises available by the sublease commencement date. In July 2021, the court denied Contract Pharmacal's motion for summary judgement and ordered them to drop its claim for specific performance and to reduce its claim for damages to $700,000. On March 10, 2022, Contract Pharmacal filed an appeal to the court's decision of which AIRI will oppose. The appeal was heard and the Appellate Division upheld the denial of Contract Pharmacal's motion for summary judgement and upheld the denial of its motion to amend its complaint. AIRI disputes the validity of the claims asserted by Contract Pharmacal and intends to contest them vigorously.

Internal Controls
As of December 31, 2023, a material weaknesses in the company's internal controls were identified regarding appropriate segregation of duties with respect to and validation of data produced by certain financial information technology modules. While new controls were implemented in 2023, they were put in place late in the year which did not allow sufficient time for testing of their effectiveness. AIRI expects to conclude effectiveness testing in 2024. If the new controls are not effective the company may have to incur additional costs to adopt new controls

and could decrease the reliability of financial reporting, and cause a failure to report financials in a timely manner, all of which could adversely affect operation.

Shareholder Control
Officers and directors collectively own approximately 37.2% of the outstanding voting stock and three large shareholders own approximately 23.6% of the company' outstanding voting stock (August 2023 SEC Filing). Officers, directors, and large shareholders could potentially greatly influence the outcome of matters requiring stockholder approval. These decisions may or may not be in the best interests of the other shareholders**.**

Liquidity risk - Emerging growth companies face liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 2.5 million shares in the float and the average daily volume is approximately 15,000 shares.

Miscellaneous risk **-** The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands $)

	2022A	2023A	**2024E**	**2025E**
Cash and cash equivalents	281	346	**440**	**446**
Accounts receivable	9,483	7,892	**7,876**	**7,813**
Inventory	31,821	29,851	**29,176**	**29,012**
Prepaid expenses and other current assets	307	297	**250**	**225**
Contract costs receivable	296	296	**296**	**296**
Prepaid taxes	28	37	**37**	**37**
Total current assets	42,216	38,719	**38,076**	**37,828**
Property and equipment, net	8,593	9,018	**9,000**	**8,985**
Operating lease right-of-use-asset	2,473	1,866	**1,866**	**1,866**
Deferred financing costs	532	1,112	**1,000**	**1,000**
Total assets	53,814	50,715	**49,942**	**49,679**
Notes payable and finance lease obligations	14,477	16,036	**13,536**	**11,036**
Operating lease liabilities	778	880	**830**	**815**
Accounts payable and accrued expenses	7,542	6,091	**6,200**	**6,377**
Deferred gain on sale	38	38	**38**	**38**
Deferred revenue (customer deposits)	781	3,557	**4,500**	**5,250**
Total current liabilities	23,616	26,602	**25,104**	**23,516**
Long-term liabilities	4,629	1,112	**1,112**	**1,112**
Long-term debt	6,162	6,162	**6,162**	**6,162**
Deferred gain on sale	105	67	**67**	**67**
Operating lease liabilites	2,463	1,582	**1,582**	**1,582**
Total liabilities	36,975	35,525	**34,027**	**32,439**
Total stockholders' equity	16,839	15,190	**15,915**	**17,240**
Total liabilities & stockholders' equity	53,814	50,715	**49,942**	**49,679**

Source: Company filings and Taglich Brothers estimates

Income Statements for the Fiscal Years Ended
(in thousands $)

	2022A	2023A	**2024E**	**2025E**
Net sales	53,238	51,516	**53,000**	**56,250**
Cost of sales	45,786	44,088	**44,640**	**46,855**
Gross profit	7,452	7,428	**8,360**	**9,395**
Operating expenses	7,646	7,723	**7,475**	**8,175**
Operating income (loss)	(194)	(295)	**885**	**1,220**
Interest and financing costs	(1,338)	(1,920)	**(1,830)**	**(1,750)**
Gain on write-off of accounts payable	317	-	**-**	**-**
Other (expense) income	139	84	**-**	**-**
Income (loss) before taxes	(1,076)	(2,131)	**(945)**	**(530)**
Income tax (benefit)	-	-	**-**	**-**
Net income / (loss)	(1,076)	(2,131)	**(945)**	**(530)**
EPS	(0.33)	(0.65)	**(0.29)**	**(0.16)**
Shares Outstanding	3,227	3,274	**3,298**	**3,313**
EBITDA	2,849	2,167	**3,685**	**3,920**
Adjusted EBITDA	3,375	2,692	**4,185**	**4,440**
Margin Analysis				
Gross margin	14.0%	14.4%	**15.8%**	**16.7%**
Operating margin	(0.4)%	(0.6)%	**1.7%**	**2.2%**
Net margin	(2.0)%	(4.1)%	**(1.8)%**	**(0.9)%**
Tax rate	0.0%	0.0%	**0.0%**	**0.0%**
Year / Year Growth				
Total Revenues	(9.7)%	(3.2)%	**2.9%**	**6.1%**

Source: Company filings and Taglich Brothers estimates

2022 includes an inventory reserve due to implementing a new policy for determining the reserve for slow-moving and excess inventory

Quarterly Income Statements
(in thousands $)

	3/23A	6/23A	9/23A	12/23A	2023A	3/24E	6/24E	9/24E	12/24E	**2024E**	3/25E	6/25E	9/25E	12/25E	**2025E**
Net sales	12,549	13,205	12,293	13,469	51,516	12,500	13,250	13,500	13,750	**53,000**	13,000	13,750	14,500	15,000	**56,250**
Cost of sales	10,669	11,035	11,065	11,319	44,088	10,625	11,195	11,340	11,480	**44,640**	10,920	11,480	12,035	12,420	**46,855**
Gross profit	1,880	2,170	1,228	2,150	7,428	1,875	2,055	2,160	2,270	**8,360**	2,080	2,270	2,465	2,580	**9,395**
Operating expenses	2,038	2,098	2,024	1,563	7,723	1,800	1,850	1,900	1,925	**7,475**	2,000	2,025	2,050	2,100	**8,175**
Operating income (loss)	(158)	72	(796)	587	(295)	75	205	260	345	**885**	80	245	415	480	**1,220**
Interest and financing costs	(476)	(480)	(516)	(448)	(1,920)	(465)	(460)	(455)	(450)	**(1,830)**	(445)	(440)	(435)	(430)	**(1,750)**
Gain on write-off of accounts payable	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Other (expense) income	16	13	13	42	84	-	-	-	-	**-**	-	-	-	-	**-**
Income (loss) before taxes	(618)	(395)	(1,299)	181	(2,131)	(390)	(255)	(195)	(105)	**(945)**	(365)	(195)	(20)	50	**(530)**
Income tax (benefit)	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Net income / (loss)	(618)	(395)	(1,299)	181	(2,131)	(390)	(255)	(195)	(105)	**(945)**	(365)	(195)	(20)	50	**(530)**
EPS	(0.19)	(0.12)	(0.40)	0.06	(0.65)	(0.12)	(0.08)	(0.06)	(0.03)	**(0.29)**	(0.11)	(0.06)	(0.01)	0.02	**(0.16)**
Shares Outstanding	3,258	3,266	3,287	3,287	3,274	3,290	3,295	3,300	3,305	**3,298**	3,305	3,310	3,315	3,320	**3,313**
EBITDA	489	727	(152)	1,103	2,167	775	905	960	1,045	**3,685**	755	920	1,090	1,155	**3,920**
Adjusted EBITDA	613	835	40	1,204	2,692	900	1,030	1,085	1,170	**4,185**	885	1,050	1,220	1,285	**4,440**
Margin Analysis															
Gross margin	15.0%	16.4%	10.0%	16.0%	14.4%	15.0%	15.5%	16.0%	16.5%	**15.8%**	16.0%	16.5%	17.0%	17.2%	**16.7%**
Operating margin	(1.3)%	0.5%	(6.5)%	4.4%	(0.6)%	0.6%	1.5%	1.9%	2.5%	**1.7%**	0.6%	1.8%	2.9%	3.2%	**2.2%**
Net margin	(4.9)%	(3.0)%	(10.6)%	1.3%	(4.1)%	(3.1)%	(1.9)%	(1.4)%	(0.8)%	**(1.8)%**	(2.8)%	(1.4)%	(0.1)%	0.3%	**(0.9)%**
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%	0.0%	0.0%	**0.0%**
Year / Year Growth															
Total Revenues	4.0%	(5.7)%	(7.4)%	(3.0)%	(3.2)%	-0.4%	0.3%	9.8%	2.1%	**2.9%**	4.0%	3.8%	7.4%	9.1%	**6.1%**

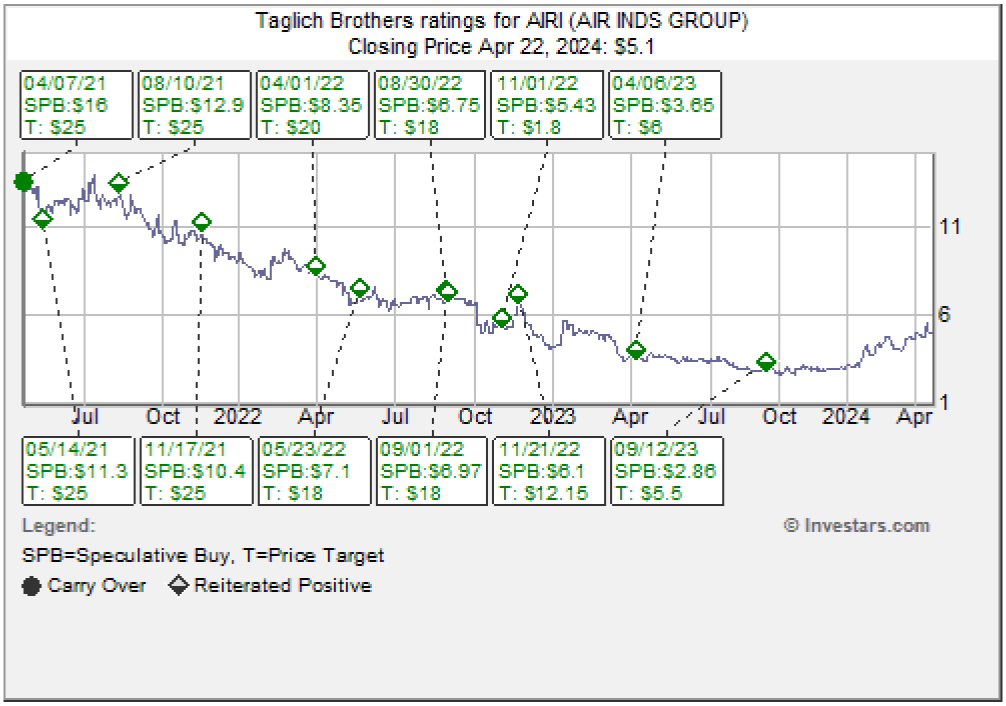
Source: Company filings and Taglich Brothers estimates

Statement of Cash Flows for the Periods Ended
(in thousands $)

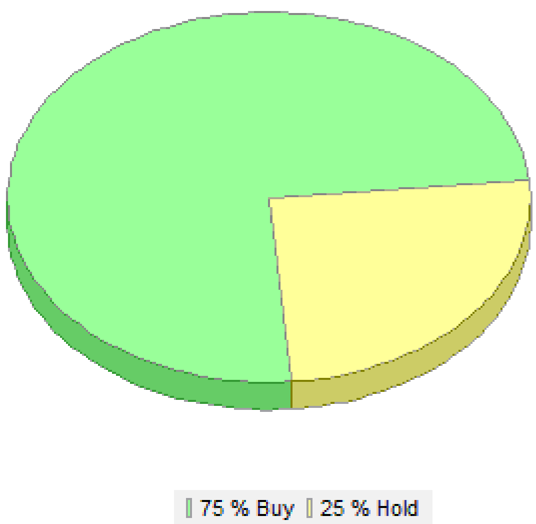
	2022A	2023A	**2024E**	**2025E**
Net income (loss)	(1,076)	(2,131)	**(945)**	**(365)**
Depreciation	2,522	2,268	**2,250**	**2,100**
Stock compensation expense	526	482	**500**	**515**
Non-cash other income	(94)	-	**-**	**-**
Non-cash interest expense	35	-	**-**	**-**
Amortization of finance lease right-of use assets	-	84	**-**	**-**
Amortization of right-to-use asset	545	607	**600**	**590**
Deferred gain on sale of real estate	(38)	(38)	**(38)**	**(38)**
Deferred gain on sale-leaseback	-	14	**-**	**-**
Non-cah gain on accounts payable write-off	(317)	-	**-**	**-**
Bad debt expense (recovery)	(313)	63	**-**	**-**
Loss on impairment of goodwill	163	-	**-**	**-**
Amortization of deferred financing costs	65	68	65	65
Cash earnings (loss)	2,018	1,417	**2,432**	**2,867**
Changes in assets and liabilities				
Accounts receivable	1,303	1,528	**16**	**64**
Inventory	(2,289)	1,970	**675**	**164**
Prepaid expenses and other current assets	(81)	10	**47**	**25**
Prepaid taxes	(6)	(9)	**-**	**-**
Deposits and other assets	(194)	(600)	**523**	**523**
Accounts payable and accrued expenses	1,136	(1,451)	**109**	**177**
Operating lease liabilities	(686)	(779)	**(50)**	**(15)**
Deferred revenue (customer deposits)	(439)	2,776	**943**	**750**
Other liability - customer deposits	(314)	-	**-**	**-**
(Increase) decrease in working capital	(1,570)	3,445	**2,262**	**1,688**
Net cash provided by (used in) operations	448	4,862	**4,694**	**4,555**
Purchase of property and equipment	(2,361)	(2,119)	**(2,100)**	**(2,050)**
Proceeds from sale of equipment	-	7	**-**	**-**
Net cash provided by (used in) investing	(2,361)	(2,112)	**(2,100)**	**(2,050)**
Note payable-revolver-Webster Bank	916	(2,548)	**-**	**-**
Proceeds from notes payable-term loan-Webste	2,823	740	**-**	**-**
Payments of notes payable-term loan-Webster	(1,609)	(1,113)	**(2,500)**	**(2,500)**
Proceeds from term loan - CT Green Bank	-	393	**-**	**-**
Transaction costs	-	(25)	**-**	**-**
Payment of finance lease obligations	(284)	(123)	**-**	**-**
Payments of loan payable - financed assets	(9)	(9)	**-**	**-**
Payments of notes payable - third party	(250)	-	**-**	**-**
Deferred financing costs	(20)	-	**-**	**-**
Net cash provided by (used in) financing	1,567	(2,685)	**(2,500)**	**(2,500)**
Net change in cash	(346)	65	**94**	**5**
Cash - beginning of period	627	281	**346**	**440**
Cash - end of period	281	346	**440**	**446**

Source: Company filings and Taglich Brothers estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	**3**	**18**
Hold		
Sell		
Not Rated		

Important Disclosures

As of April 22, 2024, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of AIRI common stock. Michael Taglich, President of Taglich Brothers, Inc. and Director of Air Industries Group, owns or has a controlling interest in 231,167 shares of AIRI common and restricted common stock, 236,907 shares that may be acquired upon the conversion of convertible notes, and 8,370 shares that may be acquired upon the exercise of options and warrants. In September 2015, April, May, and August 2016, March and May 2017, June and October 2019, Michael Taglich loaned the company monies. Robert Taglich, Managing Director of Taglich Brothers, Inc. and a Director of Air Industries Group, owns or has a controlling interest in 250,947 shares of AIRI common and restricted common stock, 186,135 shares that may be acquired upon the conversion of convertible notes, and 8,370 shares that may be acquired upon the exercise of options and warrants. In April and May 2016, February, March, and May 2017, and in June 2019, Robert Taglich loaned the company monies. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 5,605 shares of AIRI common stock. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 200 shares of common stock. Taglich Brothers, Inc. owns 23,995 shares of AIRI common stock. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In April and May of 2007, Taglich Brothers Inc. served as the placement agent in the sale of convertible preferred stock for the company. In June 2008, Taglich Brothers, Inc. served as the placement agent in the sale of junior subordinated notes for the company. In September and October of 2008, Taglich Brothers, Inc. served as the placement agent in the sale of junior subordinated notes and convertible preferred stock for the company. In October 2013 and May 2014, Taglich Brothers, Inc. served as the placement agent in the sale of common stock for the company. In May and June 2016, Taglich Brothers, Inc. served as the placement agent in the sale of convertible preferred stock for the company. In August, November and December 2016, and in February and March 2017, Taglich Brothers, Inc. served as the placement agent in the sale of convertible notes for the company. In May 2017, Taglich Brothers, Inc. served as a placement agent in the sale of convertible notes and warrants for the company. In January 2018, Taglich Brothers, Inc. served as a placement agent in the sale of common stock and warrants for the company.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid a monetary fee of $1,500 (USD) in October 2013 for the creation and dissemination of research reports. After the initial publication, the company pays a monthly monetary fee of $1,500 (USD) to Taglich Brothers, Inc., for a minimum of six months for the creation and dissemination of research reports. The company currently does not pay Taglich Brothers, Inc., for the creation and dissemination of reports.

General Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Axos Clearing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

Analyst Certification

I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

Boeing (NYSE: BA)
Lockheed Martin (NYSE: LMT)
Northrop Grumman (NYSE: NOC)
Triumph Group, Inc. (NYSE: TGI)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.